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DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON THE FIRST PART OF ITS THIRTY-NINTH SESSION

Held at the Palais des Nations, Geneva,
from 28 September to 14 October 1992

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Addendum

CONTENTS

Chapter		Paragraphs
II.	Interdependence (agenda item 3) (continued)	58 - 89

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Chapter II

INTERNATIONAL IMPLICATIONS OF MACRO-ECONOMIC POLICIES AND ISSUES CONCERNING INTERDEPENDENCE: THE RECENT EVOLUTION OF DEVELOPMENT PROBLEMS AND PROSPECTS

(Agenda item 3)

(continued)

58. The representative of India said that, in spite of the strong measures taken by developing countries in general to overcome their indebtedness, this performance had gone largely unrewarded: their access to greater financial resource flows from developed countries and access to their markets had not improved. In addition, the developed countries in their pursuit of anti-inflationary and debt-reduction policies, had adopted policies which had lowered growth and expansion of world trade during the past three years. The present process of "debt deflation" had engendered a widespread recession, especially in developed economies, which needed to be reversed. The trend towards steep hikes in interest rates for developing countries and worsening of the terms on which credit was available to them should also be corrected. Moreover, some multilateral modalities should be established to encourage commercial banks to improve their perception of the creditworthiness of developing countries. It was necessary to evolve a more reasonable programme of debt reduction, especially for some of the sub-Saharan economies. In addition, since financial markets were now far more integrated globally than ever before, a greater coordination and harmonization of supervisory and regulatory procedures were required. This would enable the developing countries to be less conservative in permitting foreign banks to operate in their markets. Those countries which had maintained a good performance in their debt management and payment of debt service obligations should continue to receive adequate inflows of both commercial and concessional external financial resources.

59. The representative of Venezuela stated that, while recognizing the validity of the analysis contained in the Trade and Development Report, 1992, especially those dealing with Latin America, she wished to call attention to the partial view with which movements of economic indicators of her country had been explained. To say, for example, that the sharp rise in the imports of Venezuela was attributable to the rebuilding of inventories overlooked the

fact that it was mainly due to the continued application of the policy of opening up the economy, which had accelerated recently despite serious repercussions on democratic stability and social security. As was indicated in the Report, the net transfer of resources to the country was due to cyclical and speculative factors rather than confidence in the strength of the economy. This volatility affected the already vulnerable external finance which in 1992 was affected by a very high debt-service payment - a serious constraint for all countries in the region.

60. She agreed with the idea that a real economic diversification and integration would only be possible if there were access to international markets. The structural adjustment and liberalization policies being undertaken in the region required external support such as the strengthening of the multilateral trading system, the elimination of protectionism and the setting up of a precise juridical framework which made exchanges predictable. Thus, there was an urgent need for the successful conclusion of the Uruguay Round. She supported recent integration agreements in so far as they enabled developing countries to participate effectively in the evolution of the world economy. However, she rejected exclusive trading blocs which increased existing disparities in international markets.

61. She supported what was clear from the TDR in the sense that there was no miracle remedy to resolve difficulties. What was effective in one country might not be valid in another because each one had its own dynamics based on historical, cultural, political and social factors. Since all countries were engaged in the task of reactivating the world economy, it was necessary to strengthen dialogue to reach a solution which would benefit all.

62. The representative of Chile said that there were signs in Latin America that inflation and public budgets had come under control and that growth was picking up. It was also important that net financial transfers had become positive for the first time in many years. Although the TDR cautioned that an important share of recent financial inflows were of a short-term nature, unrelated to productive activity, it was a fact that Chile - like many other countries in the region - had created more stable macro-economic conditions, which had reduced financial risk and helped to attract capital flows from the developed countries. But serious doubts had arisen about the durability of this positive tendency, given the unfavourable external environment. In recent years Latin America in general and Chile in particular had opened up

their economies, but they were facing protectionist tendencies in many developed countries, which weakened their exports, particularly of manufactures. If these tendencies did not come to a halt, there was a risk that developing countries would resort to similar measures. Latin American countries, for their part, were aiming at a successful conclusion of the Uruguay Round. Because of the openness of its economy, Chile was particularly affected by the slowdown of the world economy and was sensitive to the increasing degree of interdependence. It was therefore making a great effort to respond to the challenges resulting from the globalization of economic, social and environmental issues. It had learned to make better use of private enterprise and market forces in economic relations, but clearly the market was unable to solve problems requiring strategic decisions. The move towards a more liberal economy had been costly in terms of great social sacrifices, greater unemployment, strong falls in real wages and abnormally high interest rates, resulting in a deterioration in income and wealth distribution. Many problems remained to be solved, the most important one being the complete elimination of poverty. In this respect, the international détente provided a great opportunity to shift resources away from armament to poverty alleviation.

63. In order to enhance development in the developing countries it was essential that developed countries open up their markets. Moreover, developing countries needed better access to technology in order to be able to export goods with a higher content of value-added, to protect their environment, to develop their human resources and to seize new opportunities in international markets.

64. The representative of Argentina said that the mechanisms which UNCTAD had tried to design in its early years had not been successful in dealing with the problems they were supposed to solve. Innovative ideas had been lacking and motivation dwindling for some time, but the Tehran Declaration adopted by the Ministerial Meeting of the Group of 77 was proof of the willingness on the part of the developing countries to promote, on a multilateral basis, clear rules to assure competition, free markets and, in particular, fairness in international economic relations.

65. While a large number of developing countries were going through a process of far-reaching trade liberalization and macro-economic adjustment, many developed countries were raising tariffs and other trade barriers to protect their industry and agriculture from increasing competition of developing

countries. Argentina was facing non-tariff barriers in the three major markets - the United States, the European Community and Japan - which affected between 14 and 27 per cent of its export volume. Moreover, the EC measures affected 30 per cent of all imports from developing countries, while this share was only 15 per cent for imports from other industrial countries. This showed that many industrialized countries were introducing "preferences" which undermined the most-favoured-nation principle and discriminated against developing countries. Thus, the world was moving away from the idea of a free and open trading system offering gains for all actors towards a system of ad hoc agreements and protectionism. This would create severe tensions in the international trading system since all actors would try to maintain their initial position. One example for such a harmful confrontation was the conflict between the United States and the European Community over agricultural subsidies.

66. A sound multilateral system required that all participants assume their responsibilities and act in accordance with the principles imposed by the system, so that all would benefit. Therefore, clear and mutually agreed rules of the game bearing on production, capital flows, trade, services and technology had to be defined. More negotiations, discussion and reflection were needed to improve the international economic system. There were grounds for optimism in the fact that so many countries, both developed and developing, were undertaking or had already completed economic structural adjustment. Moreover, the prevailing spirit of compromise was favourable to the reform of UNCTAD and international cooperation as well as a positive outcome of the Uruguay Round. But the major actors in the world economy had to act according to the basic rules.

67. The representative of the World Bank said that the 1990s had opened with a recession whose end was proving elusive and that policy choices in the next few years would be important in determining the ability to meet the increasing challenges of the global economy: reduction of poverty in the developing countries; transition of the centrally-planned economies; reinforcement of liberal environments for trade and finance in the market economies in a sustainable manner. In the 1990s developing countries as a group were projected to do slightly better than in the 1980s, but there would be sharp differences in their individual performance. Slow growth in industrial

countries, the high cost of external finance and the scarcity of aid underlined the importance of domestic resource mobilization and export development.

68. The industrial countries faced constraints on the use of conventional macro-economic policies to accelerate recovery. The scope for fiscal stimulus was limited by the large fiscal deficits in many industrial countries. Monetary policy in the United States and Europe had diverged substantially, leading to large swings in interest rates and exchange rates. Inadequate policy coordination (or perhaps lack of market confidence in it) had led to extreme volatility of exchange rates and macro-economic instability. The unfavourable external outlook could undermine developing countries' growth potential in the 1990s, yet growth was needed in order to employ the rapidly increasing labour force. The integration of the centrally-planned countries into the world economy required additional aid flows and open markets. Conclusion of the Uruguay Round would remove a major uncertainty, boosting trade-related investment and growth. The efficiency gains resulting from the European single market were expected to give a new boost to investment in Europe, and NAFTA could also exert a liberalizing impact on many sectors.

69. Success with resource mobilization and better growth performance depended on improvements in domestic policies and continued efforts to implement and adapt the debt strategy. Improved access to private capital in many middle-income developing countries called for more debt relief. Lower world interest rates would also help to save resources by lowering debt service. An expanded application of the enhanced Toronto terms to lower-middle-income countries and more generous debt relief for low-income countries were important. Despite their own efforts, many low-income countries would remain heavily dependent on concessional finance for development. Efforts to increase IDA resources were essential. The ninth general review of IMF quotas should also be rapidly concluded.

70. The representative of Jamaica said that discussions on interdependence were taking place at a time of crucial significance in the life of UNCTAD. She was confident that UNCTAD's institutional reforms would enable the organization to respond more effectively to the realities and challenges for a more equitable and sustainable global development. The development prospects of developing countries were being hampered by the worsening of the external economic environment. The world economy had been experiencing un-coordinated

and weak growth, worsening economic indicators in the major developed countries, and turmoil in currency markets. The forecast for 1992 was for only mild recovery. Developing countries were finding it increasingly difficult to sustain the export growth necessary to support the structural reforms which many of them had carried out.

71. Noting the danger posed by debt deflation for world economic activity and growth, she agreed on the need for coordinated action by the developed countries to reduce interest rates in order to lessen the burden of debt and for measures to spur demand. Any programme for global economic recovery must, as a matter of urgency, include an increase in the flow of resources to developing countries. World economic recovery would also depend on further action to address the debt problems facing many developing countries. For many countries, the amount of finance available was inadequate and the terms of re-entry into international capital markets remained onerous. In the area of multilateral debt, urgent action should be taken to relieve the burden facing middle-income developing countries, for example through the mobilization of resources to assist in the payments of arrears or through refinancing. She also felt that there should be a further review of the scale and modalities of official bilateral debt reduction for the poorest countries. In view of the need for urgent action in the field of international trade, she hoped that the Uruguay Round would result in a balanced and successful outcome, and lead to the establishment of a more open and stable multilateral trading system.

72. The representative of the Islamic Republic of Iran said that there was serious concern that the world would turn into two unbalanced poles of rich and poor. Although a few developing countries had attained high growth rates, for most of them growth was unsatisfactory. The process of trade liberalization in the 1980s had not remedied the economic difficulties of the third world. Rather, standards of living in most countries had declined, giving rise to diverse political and economic problems. The uncertainty over the successful outcome of these measures could be attributed to the unfavourable international climate, insufficient financial flows and scarcity of aid. The so-called new world order, demanding as it did the undisputed supremacy of the dominant economies over the global economy, would grant a pivotal role to those economies in making strategic decisions in cultural and economic matters. In this order, the supremacy of the big economic powers and

their values were the focus of attention, there was no sign of an equitable and fair relationship between North and South, and economic betterment of the North would be achieved at the expense of the South. The third world countries would welcome the new world order only if it offered true cooperation, enhanced social and economic status, consolidation of political independence, and the removal of injustice and dishonesty.

73. He cautioned against the privatization policies in the form now being advocated for the economic improvement of the third world as this could lead to a monopoly imposed by a minority possessing huge capital. Privatization policies should be compatible with the social and economic structure of the countries concerned and should aim at increasing domestic competition and production, with greater participation of the people. The Islamic Republic of Iran had launched drastic economic reforms such as implementing prudent fiscal and monetary policies; moving towards a single foreign exchange rate; liberalizing its trading system, paving the way to the privatization of public enterprises; providing conditions to attract foreign investments in joint ventures; and streamlining bureaucracy. However, the success of national structural adjustment measures depended on favourable international conditions as well as reforms and adjustments at the international level. The path to successful development lay, among other things, in the implementation of the Cartagena Commitment.

74. The spokesman for the African Group (Côte d'Ivoire) expressed concern at the slow growth and diverse performance in various geographical regions as noted in the TDR. The situation of African countries was critical, and Africa was actually experiencing an unprecedented economic disaster. This situation called for concrete and urgent actions, particularly as regards commodity prices and resources for development. The African Group was in agreement with the general statement made by the spokesman for the Group of 77 and shared the worries already expressed by a number of delegations regarding the full participation of all countries in the work of the new intergovernmental organs, especially the Ad Hoc Working Groups. He hoped that a trust fund would be created to finance the participation of the least developed countries in these organs.

75. On the question of priorities, he said that the African Group felt it was difficult to select among the items to be examined. All the issues relating to development should be considered as priorities and he suggested that issues

of commodities and poverty alleviation be added to the list prepared by the UNCTAD secretariat. Of particular importance was the New Agenda adopted by the United Nations General Assembly for the development of Africa.

76. Regarding the contribution of UNCTAD to the implementation of the Rio Declaration on Environment and Development, he said that it would be useful to entrust this issue to a sessional committee of the Board, with the possibility later to create a more appropriate organ, such as a standing committee. He also urged the UNCTAD secretariat and the Bureau of the Board to continue discussions to reach a concrete decision on the creation of a committee on adjustment and disarmament.

77. In conclusion, he said that all nations should, in the framework of the Uruguay Round, establish a multilateral trading system that would be freer and non-discriminatory and would take into account the specific interests of developing countries.

78. The representative of Hungary said that, despite the world economic recession and the problems stemming from political change and economic transition, Hungary had made further progress in structural adjustment. Output was still falling and unemployment was on the rise, but foreign trade had become one of the factors which was helping to maintain the external financial equilibrium. As a result of the healthy current-account balance and a large amount of foreign direct investment, which represented approximately half of the foreign capital invested in Central and Eastern Europe, the net external debt of Hungary had decreased by $2 billion and the country had met all its payment obligations. Strict monetary policy and growing competition induced by the liberal import regime and an expanding private sector had contributed to a deceleration of inflation since the autumn of 1991. With the enactment of some important laws in 1991, namely the Law on the Central Bank, Banks and other Financial Institutions, Accountancy and Concessions, the process of establishing the necessary legal and institutional framework for a market economy was now almost completed.

79. Finally, she regretted that the TDR had dealt only with the internal reforms of public enterprises and had not looked at privatization. The question of internal reforms of public enterprises could not be treated separately from that of privatization. Doing so could lead to mistaken conclusions.

80. The representative of Poland, outlining recent developments and current problems in the economy of her country, stated that the economy had achieved considerable stabilization, owing in particular to the liberalization of prices, foreign trade and foreign exchange, as well as to wage controls and to a restrictive monetary policy. There had also been a considerable increase in the part played by the private sector since 1990. This transformation of the economy had not come about without costs: Poland had experienced a significant drop in real wages and an overall decline in production, and the reforms had also resulted in the emergence of unemployment and diminishing social welfare. Nevertheless, there was no other way of development than radical transformation of the economy, and her Government's policy was intended to speed up this process. External assistance could play an important role in this transformation. Indeed, the profound transformation now under way in Poland's economy made the country more and more accessible to trade, and to financial and investment cooperation with foreign partners. The effects were also being felt in her country's economic relations with developing countries. Notwithstanding the negative trade balance in 1991, which had been due to very high imports by Polish private firms, she was convinced that the economic reforms now taking place in Poland would have long-term positive effects on Poland's economic cooperation with all partners.

81. The representative of Colombia said that his Government was proud to have been the host to, and a driving force behind, the successful Conference in Cartagena, but UNCTAD VIII had only been a beginning of a more comprehensive reform. Now the new intergovernmental machinery had to be set into motion and the secretariat to be restructured effectively.

82. The analysis provided by the Trade and Development Board was of high technical quality. Its policy proposals, particularly in the area of macro-economic management in the industrialized countries, would certainly stimulate international debate. Some Governments had already adopted measures in line with what the secretariat had proposed not only in this year's TDR but also in the TDR 1991. International policy cooperation was essential for the developing countries, because they could benefit from international trade and investment flows only in a predictable and stable international monetary environment. He deplored the current paradoxical situation whereby free-trade rhetoric was more and more at odds with the practices of managed trade to be

found in reality. The Uruguay Round was an important opportunity to strengthen the liberal trading system and should be concluded without further delay. Low commodity prices remained another serious issue to be solved in order to assure a real integration of the developing countries into the world economy.

83. The experience of Colombia had demonstrated that there were ways of development combining economic growth with social progress. Periods of highest growth had coincided with periods when income distribution was more equitable. Internal and external competition, complimentary public investment and stimulation of private investment had all been important instruments. Neo-liberal policies had to be made compatible with policies advancing social progress. The State had to direct its attention in particular to the most needy, and social institutions had to be strengthened through measures ensuring higher efficiency. In order to consolidate the basis for democracy in developing countries, the role of the State was not so much in the area of direct supply of goods, but rather in guaranteeing access to services provided by specialized social institutions. Public investment in the population had a high return in terms of growth and justice. The instruments of social policy should be modernized through decentralization, enhanced social participation and more selective subsidies.

84. The representative of Nigeria said that commodity prices, upon which most African countries depended for foreign exchange earnings, were now at their lowest level owing to structural over-supply and unfavourable external environment. Therefore, there was a need to review international commodity agreements; in particular, he hoped that negotiations on a successor agreement on cocoa would be fruitful.

85. The main obstacles to reform efforts carried out by most African countries were lack of international support and an unfavourable external environment. He hoped that the emergence of trading blocs would not adversely affect free and fair trade for non-members. He looked forward to the early conclusion of the Uruguay Round as this offered an opportunity to strengthen the multilateral trading system, halt and reverse protectionism, reduce trade distortions and improve market access.

86. African countries were in the process of establishing the African Economic Community because trade exchanges among developing countries, through regional and subregional cooperation, were necessary to ensure their internal growth and integration in the world economy.

87. He stressed that the debt problem was not yet resolved. Most developing countries, especially in sub-Saharan Africa, continued to have difficult access to external finance. He welcomed the decision of Paris Club creditors to adopt the enhanced Toronto terms for the poorest countries and hoped that heavily indebted low-income countries like Nigeria could benefit from the adoption of the Trinidad terms for debt reduction. Nigeria's debt burden continued to mount even though the country was not contracting new loans. This had slowed down economic development and exacerbated socio-economic problems. There was a need to review the scale and modalities of debt reduction so as to remove the debt overhang. Bolder measures along the lines envisaged in the New Agenda for the Development of Africa were needed to deal with the debt problems of African countries. He also hoped that the international community would support the United Nations System-wide Plan of Action for African Economic Recovery and Development for the 1990s.

88. The representative of the International Confederation of Free Trade Unions (ICFTU) stated that his organization was particularly encouraged to find in the TDR 1992 much that, if acted upon, would lay the foundation for the type of internationally coordinated economic action that the ICFTU held to be urgently necessary. The launching of interdependent economies on to higher growth paths could be achieved most effectively through the injection of an internationally coordinated fiscal boost. Spending should be increased, on a priority basis, in job-creating infrastructural investment programmes, through social payments targeted at the poorest sections of society and via the type of education and training policies that stimulated long-term productive capacity. Furthermore, an integral part of the international community's action should be to implement a realistic strategy to resolve the continuing debt crisis. The basic premise of insistence on total debt repayment had to be abandoned. Substantial writing-off of external debt by creditor countries was essential to any strategy aimed at addressing the debt crisis. Increased provision of official development assistance was also needed: the 0.7 per cent GNP target should be reached and surpassed. Finally, he emphasized that respect for basic human rights and democratic government were

central factors in successful development processes. In this context, he believed that a social clause ought to be introduced into the GATT which would have the effect of making trading privileges dependent upon the respect for basic international labour standards.

Action by the Board

89. At its 813th meeting, on 7 October 1992, the Board approved by consensus the summing-up of the general debate and the informal meetings on agenda item 3 made by the President and decided to incorporate it in the final report of the Board on the first part of its thirty-ninth session.